



United Kingdom

Description

The British empire covered ¼ of the planet in the 19th century, however this might faded in the 20th century after Ireland withdrawal from the union and as it went through 2 world wars. Now 4 countries are part of it: England, Scotland, Wales and Northern Ireland. Despite its history as a global force and its approach to foreign policy (being one of the founders of NATO and joining European Communities in 1973), UK citizens decided in 2016 by referendum that the country must leave the European Union.

Economic Overview

Despite Brexit uncertainties which led to low consumer and industrial confidence, UK growth has been fairly high around 2%, due to a high contribution from services. Notwithstanding, industrial production continues to decline due to negative effects coming from trade wars, auto sector and Brexit.

For the election of 12th of December, polls suggest that Conservatives may get a majority, and Boris Johnson promised that if it happens, he will push towards a Soft Brexit in the House of Commons.

This scenario would trigger a recovery in confidence of companies and consumers, which will lead to a higher growth of the services and production and consequently of GDP for 2020.



Economic Indicators	
GDP (USD bn) (2018)	2,825
GDP/Capita (USD) (2018)	44,930
GDP growth (2Q2019)	1.3%
Inflation (Sept 2019)	1.70%
Unemployment (Aug 2019)	3.9%
Retail Sales YoY (Aug 2019)	2.70%
Ind Prod YoY % (Aug 2019)	-1.8%
PMI Manufacturing (Sep 2019)	48.3
PMI Services (Sep 2019)	49.5

Research:

research@big.pt

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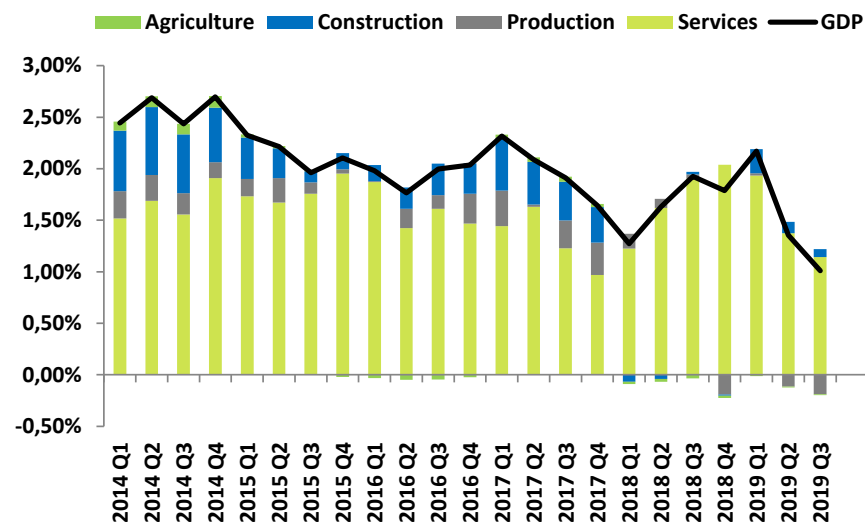
▲ Economic Analysis

1. GDP

Below we analyze the contribution of different segments to the UK Real GDP:

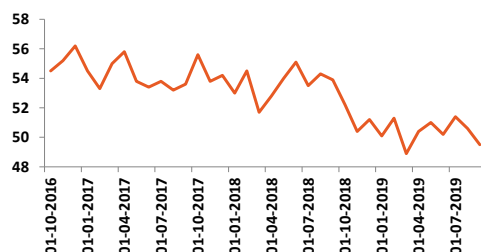
The UK economy is heavily reliant on services and construction and these have been the main components of GDP growth in the last years. In the second quarter the growth YoY slowed to 1.3%.

GDP growth YoY %



Source: UK Office for National Statistics

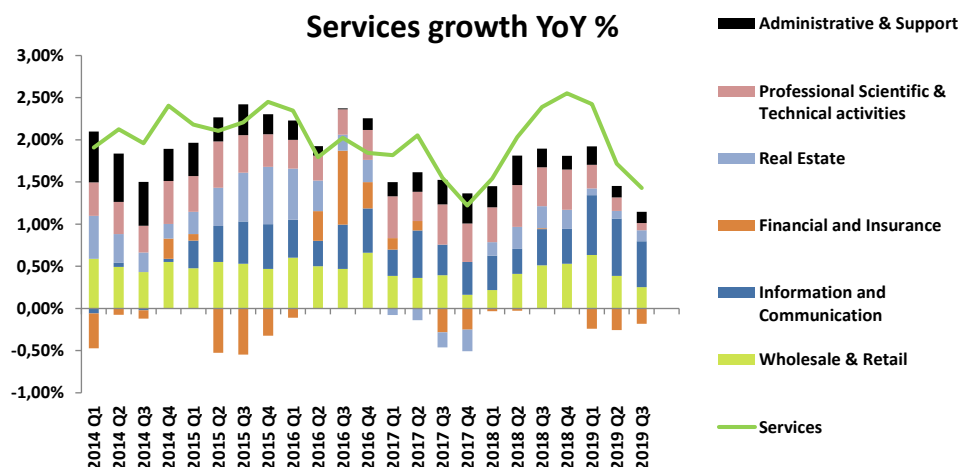
Markit UK Services PMI SA



1.1 Services

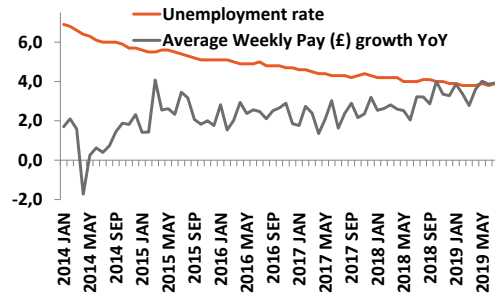
Below are the contributions of the main segments of Services. By analyzing these segments, it is visible that the main growth component is Information and Communication (especially the IT sub segment), followed by wholesale and retail, and Professional Scientific and Technical Activities. Real Estate, while important in 2015, has now a reduced impact, while Financial Services have been contributing negatively.

Services growth YoY %



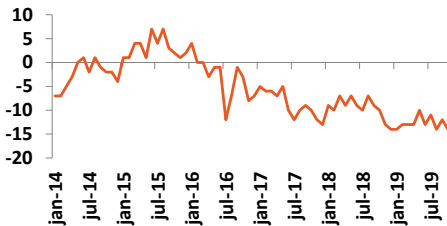
Source: UK Office for National Statistics

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Source: UK Office for National Statistics

UK Consumer Confidence

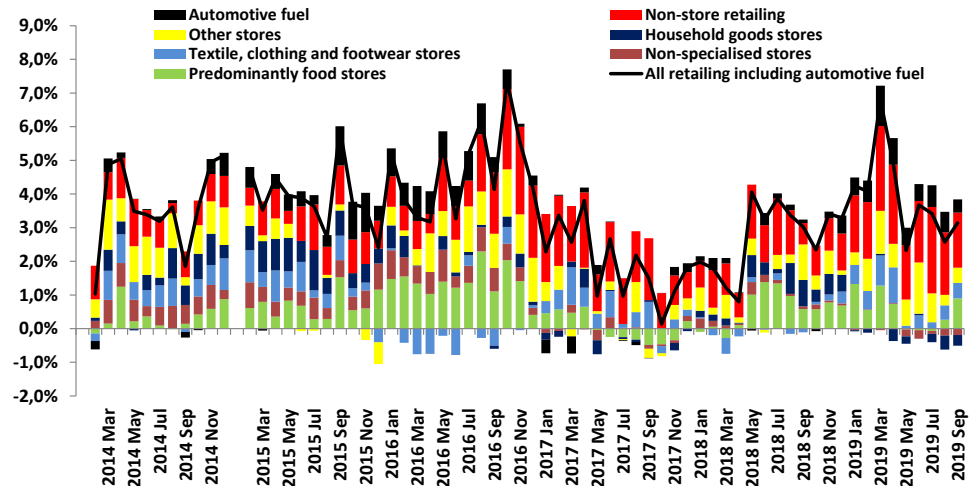


Source: GfK

1.1.1 Wholesale & Retail

Retail sales have been rising at a high pace yoy (+3,1% in September) as wages keep increasing by almost 4% yoy. Consumer confidence however has fallen since the Brexit referendum leading to slower growth in 2017 retail sales, and failing to recover as Brexit is still uncertain. This has been motivated by growth in non-store retailing (mainly internet retail) and other stores. Other stores growth has come from segments such as jewellery, flowers and pets, games and sporting equipment.

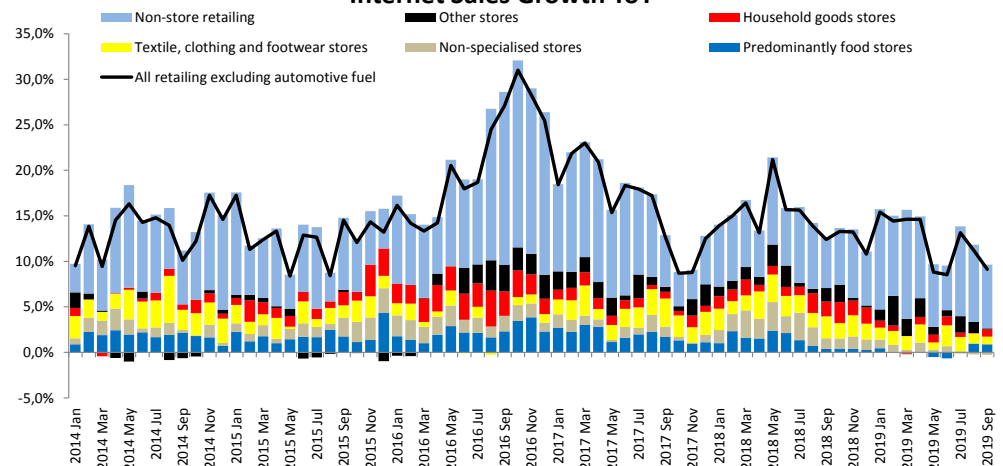
Total Retail Sales growth YoY SA



Source: UK Office for National Statistics

Internet sales already represent 19% of all retail. On Textile and footwear represent 19%, on food only 5.6% and in household goods around 15%.

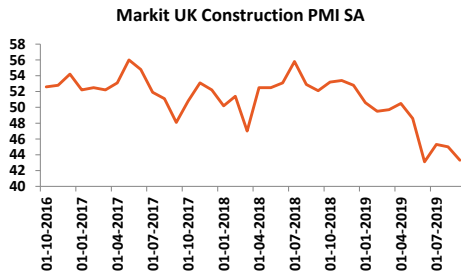
Internet Sales Growth YoY



Source: UK Office for National Statistics

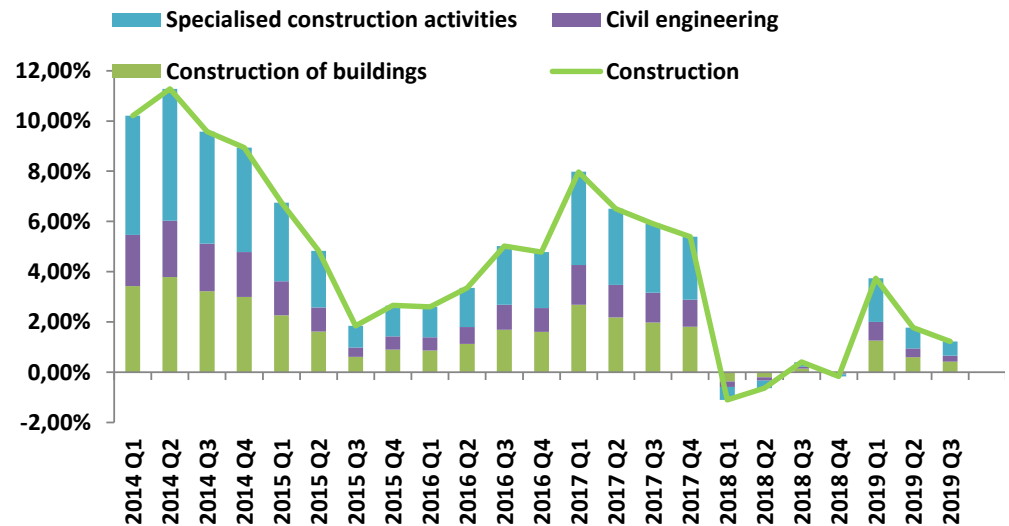
1.2 Construction

Below are the contributions of the main segments of Construction. This segment's contribution has weakened.



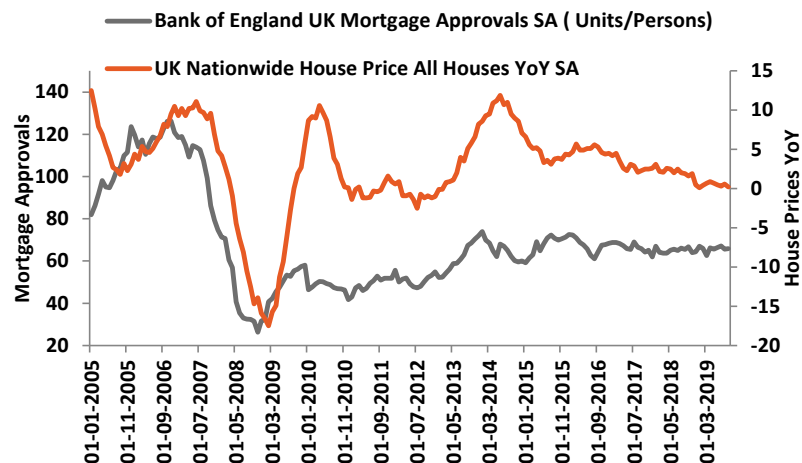
Source: Markit

Construction growth YoY %



Source: UK Office for National Statistics

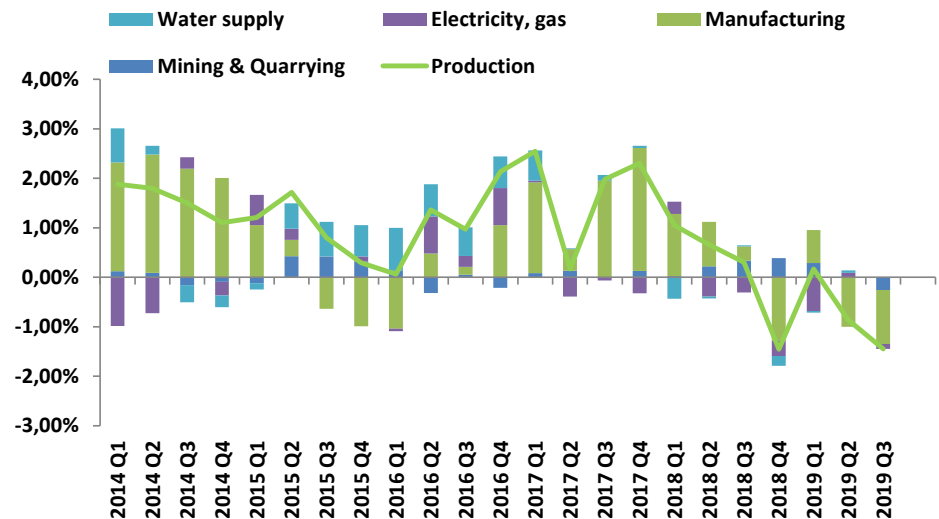
Mortgage approvals pickup in beginning of 2014, led to an increase in prices, however for now this variable has stabilized, so should not contribute positively to growth in prices or construction activity.



1.3 Production

Below are the contributions of the main segments of Production. This segment's contribution has weakened and the main component is Manufacturing.

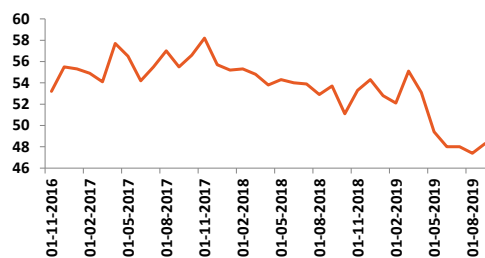
Production growth YoY %



Source: UK Office for National Statistics

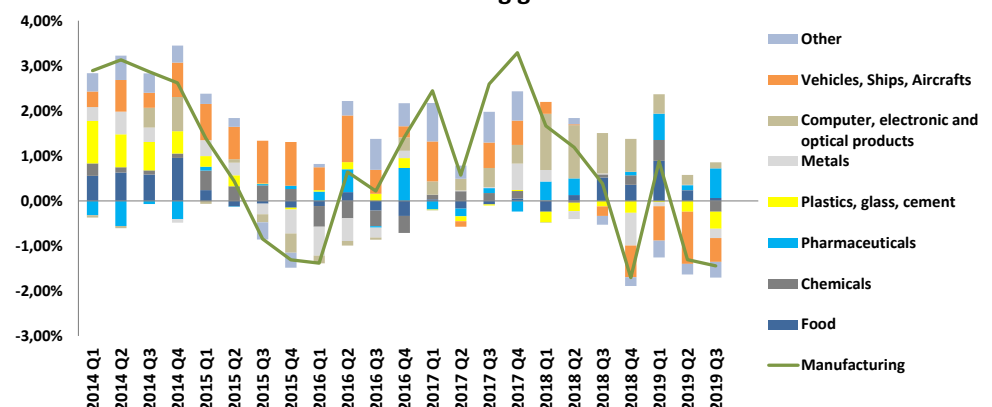
We see a high correlation between contributions of construction and some segments of manufacturing such as: metals and plastics, glass and cement.

Markit UK Manufacturing PMI SA



Source: Markit

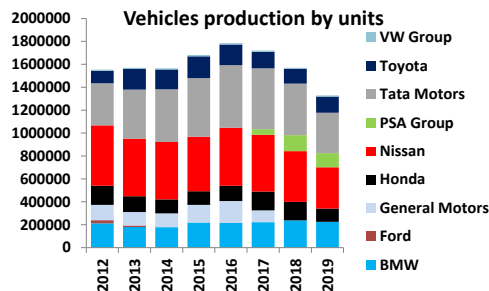
Manufacturing growth YoY %



Source: UK Office for National Statistics

Vehicles, Ships and aircrafts were a high component of contribution of Manufacturing but the recent slowdown in auto sector is having a negative impact on growth.

Vehicles production by units



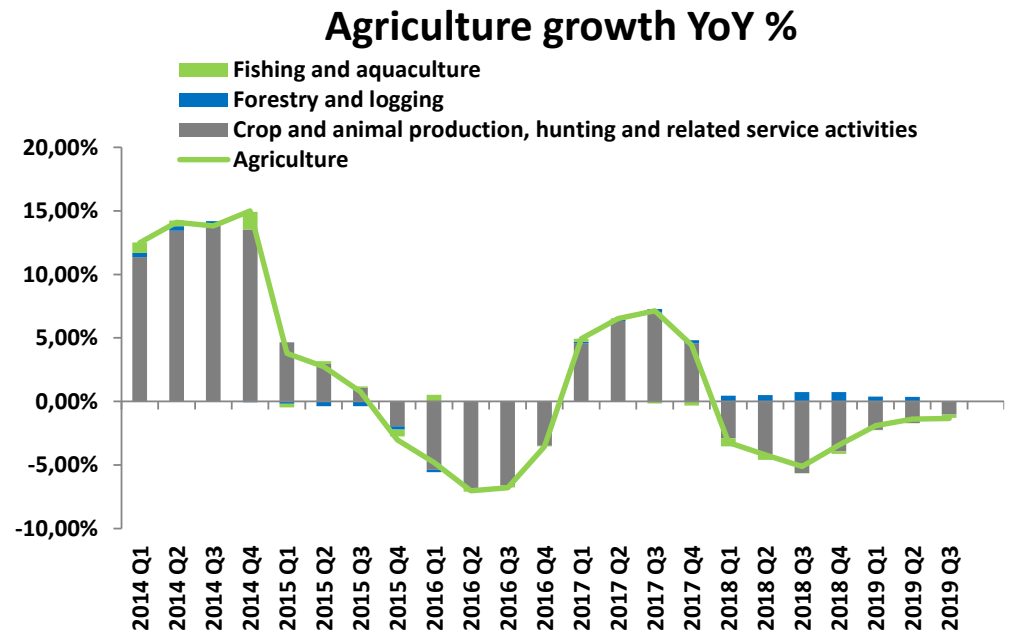
Source: Bloomberg Intelligence

Research:

research@big.pt

1.4 Agriculture

In agriculture there is also a correlation with the Food contribution in the Manufacturing segment.

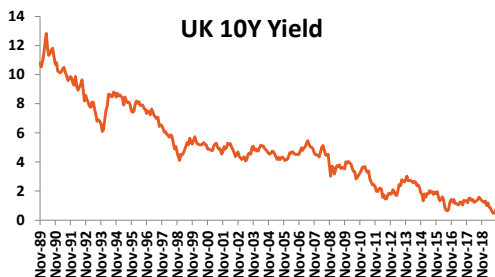


Source: UK Office for National Statistics

Government Debt

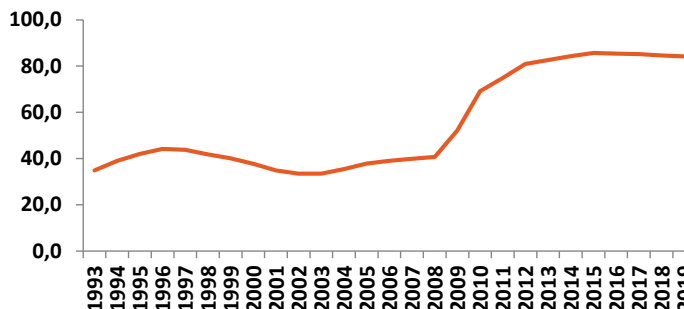
The UK government debt of the financial year ending on March 2019 was at £1,821.9 bn, equivalent to 84.2% of the GDP.

UK 10Y Yield

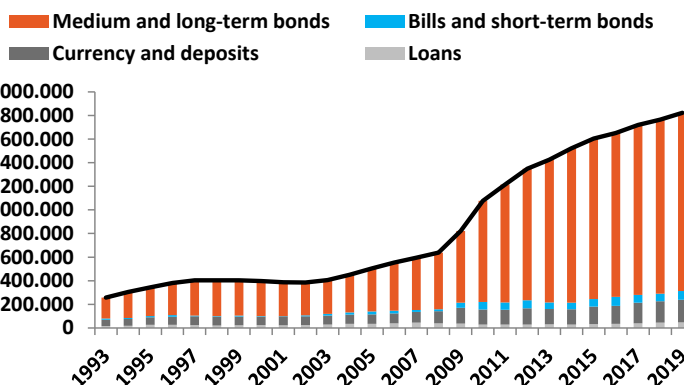


Source: Bloomberg

Gross consolidated debt as a percentage of GDP

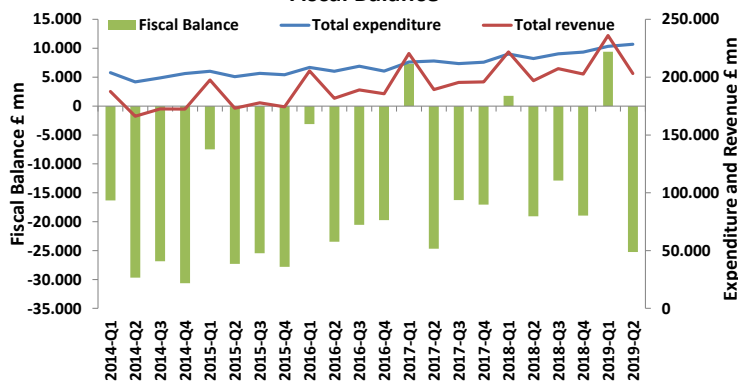


UK Government Debt (£ mn)



Source: UK Office for National Statistics

Fiscal Balance



Source: UK Office for National Statistics

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Government Budget

UK's fiscal balance has been improving as revenues growth of 22% since 2Q14 offset the increase in expenditures of 16.6%. Social benefits were the variable contributing more to growth in expenditures, while on revenues the growth is similar divided between net social contributions, taxes on income and wealth, and taxes on production and imports.

UK Government Expenditures: It is clear that the biggest chunk of expenditures is for social benefits. Below, a few are described:

- **Jobseeker's Allowance (JSA):** This subsidy is for people with more than 18 years old which are currently unemployed and actively looking for work.
- **Employment and Support Allowance (ESA):** This is a benefit for people who have limited capacity to work due to illness or disability with more than 16 years old.
- **Income Support:** This subsidy cannot be accumulated with JSA or ESA, and is made for people which have no income or low income and no more than £16,000 in savings. It applies to woman pregnant or in maternity leave, a lone parent with child below 5 years old, a carer, young parents (16 to 20 years old) in full time education (not univ.), or a refugee learning English.
- **Housing Benefit:** To help with rental costs for people on low income, either employed or not.

Universal Credit: This is a new type of subsidy introduced in phases that will replace the above subsidies and Child Tax Credit and Working Tax Credit. It will have a standard payment which may increase accordingly to number of children, income situation etc. People eligible will have low income or be out of work, have less than £16,000 in savings, be between 18 and the state pension age and live in UK.

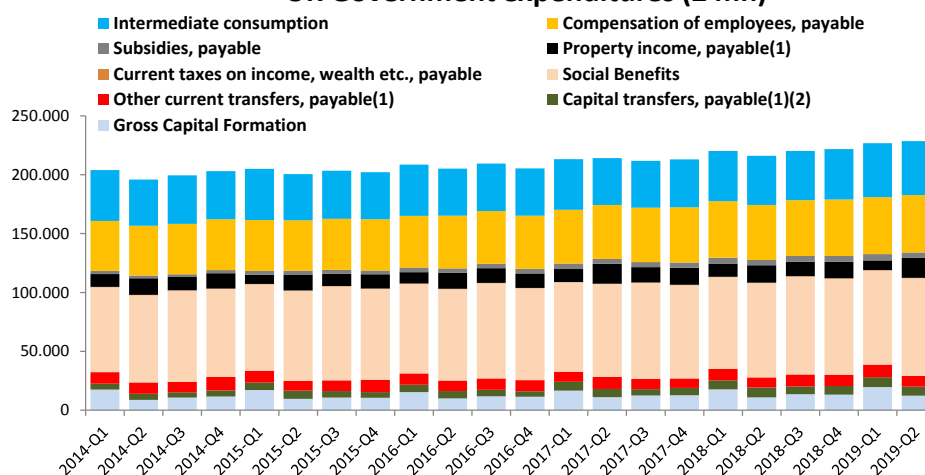
Jobseeker's Allowance	
Age	Max monthly amount
Up to 24	up to £232
25 or over	up to £292
Couples (both over 18)	up to £459

Employment and Support Allowance	
Situation	Max monthly amount
Able to work	up to £292
Support group	up to £447

Income Support	
Situation	Monthly amount
16 to 24 (single)	£231,6
25 or over (single)	£292,4
16 to 17 (lone parent)	£231,6
18 or over (lone parent)	£292,4
Both under 18 (couples)	£231,6
Both under 18 - 'higher rate' (couples)	£350
Both 18 or over (couples)	£459,4

Universal Credit standard rates	
Situation	Monthly amount
Single and under 25	£252
Single and 25 or over	£318
In a couple and both <25	£395
In a couple and either one >25	£499

UK Government expenditures (£ mn)



Source: UK Office for National Statistics

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UK Government Revenues:

More than 50% of the taxes collected come from income taxes and VAT, which signals clearly that citizens face a higher tax burden than companies. Citizen's income taxes go from 20% up to 45% depending on income, while companies have a corporation tax of around 19% and for some industries lower.

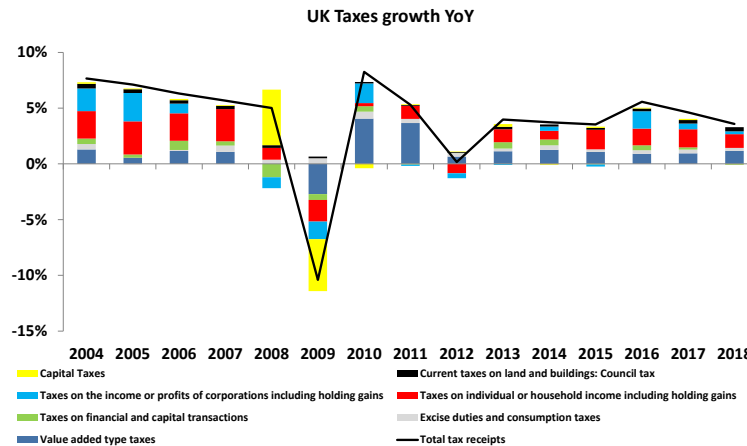
In the last couple of years is visible that most of the growth in taxes came from increases in the total sum collected from VAT and income taxes. In crisis years, usually these taxes decline as unemployment increases and consumption decreases.

Personal Income Tax		
Band	Taxable Income	Tax Rate
Personal Allowance	Up to £12,500	0%
Basic rate	£12,501 to £50,000	20%
Higher rate	£50,001 to £150,000	40%
Additional rate	over £150,000	45%

Corporation Tax	
Company Profits	19%
Companies with patents related business	10%

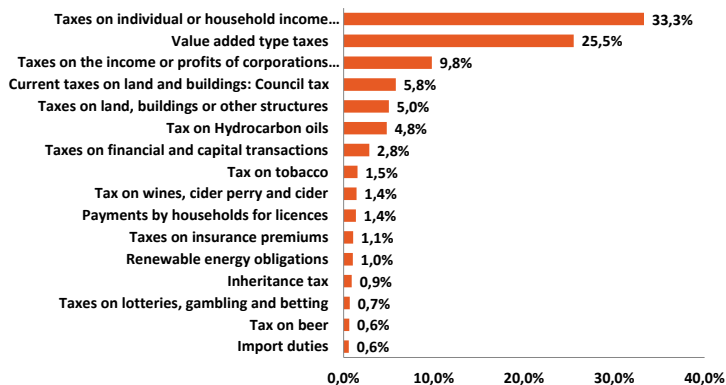
VAT		
Rate	Rate applies to	VAT rate
Standard	Most goods and services	20%
Reduced Rate	Some goods (ex: children's car seats, home energy)	5%
Zero Rate	Zero rated goods (ex. Most food and children's clothes)	0%

Source: UK Office for National Statistics



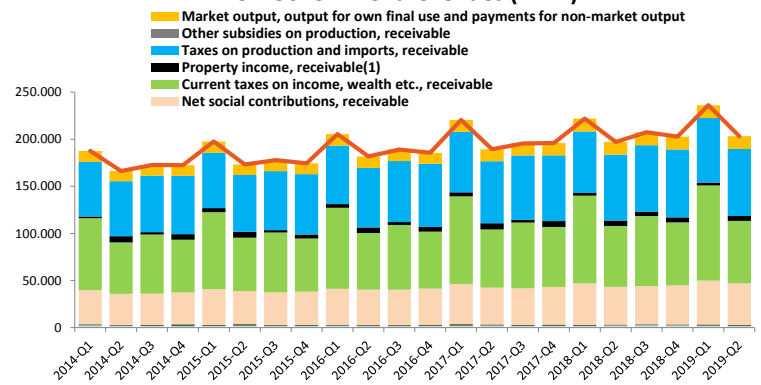
Source: UK Office for National Statistics

Weight of taxes on products and income (2018)



Source: UK Office for National Statistics

UK Government revenues (£ mn)



Source: UK Office for National Statistics

Research:

research@big.pt

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Bank of England



The central bank of United Kingdom was founded in 1694, being privately owned until its nationalization in 1946. It became an independent public organization only in 1998. Its Monetary Policy Committee is led by Governor Mark Carney since 2013.

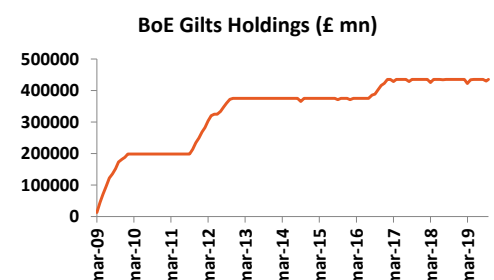
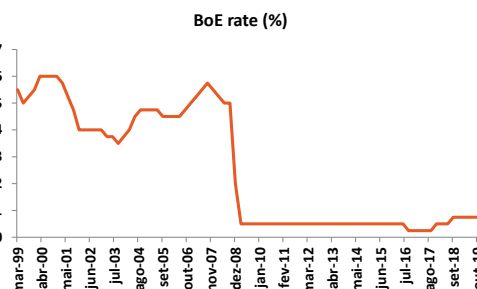
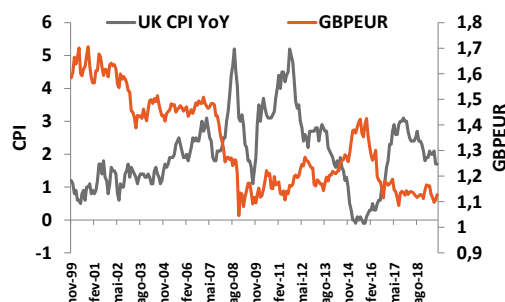
Mark Carney: Born in Canada in 1965, has Canadian, British and Irish citizenship. He graduated from Harvard and held his postgraduate studies in University of Oxford, receiving a masters and doctoral degree in Economics. He worked for 13 years at Goldman Sachs in Boston, London, NY, Tokyo and Toronto. After, worked as Deputy Minister at the Canadian Department of Finance. In the beginning of 2008 was appointed as Canada's central bank governor, the youngest among the G20 economies. After one month of his appointment the Central Bank Committee decided to cut rates by 50bps, and while ECB was hiking rates in March 2008, Carney was expecting a global contagion of the US crisis. After dropping the rates the central bank used the "conditional commitment" which stated that the rates would be held at constant low levels for at least one year. Canada was one of the best performing countries of the developed economies in the crisis. In 2013 he was appointed governor of the Bank of England and is expected to remain in this position until January 2020. He has voiced concerns over the negative impacts of Brexit to UK's economy.

BoE Monetary Policy: BoE is responsible for maintaining monetary and financial stability, with an inflation target of 2%. Sometimes it may prioritize the support of economic growth and jobs.

BoE Committee meetings: After being briefed on the latest economic data, governors discuss it and debate which policy action should be adequate. On Wednesday in the final meeting, the Governor recommends the policy he believes will be supported by the majority of MPC members and a vote is held (if there is a tie, the Governor casts the deciding vote). The decision is published on Thursday of the same week at 12h00.

Latest monetary decision on 19th September:

- **Keep BoE Rate at 0.75%.**
- **Keep the stock of up to £10bn of sterling non-financial investment-grade corporate bonds.**
- **Keep the stock of UK government bond purchases at £435bn.**
- **Macroeconomic commentary:** Growth slowed but still slightly positive, Brexit uncertainties weighing negatively on business investment, although consumption is growing as real household income increases. Weaker global environment pressuring trade.





Government

- **Prime Minister – Boris Johnson:** He is leader of the Conservative Party since July of 2019, having served as Mayor of London from 2008 to 2016 and Foreign Secretary from 2016 to 2018. He was born in New York City but his parents belong to upper middle British class. He studied at European School in Brussels and Oxford. He started his career as a journalist in Times but was later dismissed due to falsifying a quotation. After started writing for The Daily's Telegraph. His articles helped build a Eurosceptic sentiment in UK. While Mayor of London he banned alcohol consumption, improved transportation and held the 2012 Summer Olympics. Johnson was one of the most hard campaigners of Vote for Leave in the Brexit referendum but after the vote, refused to occupy the Prime Minister seat.

Government: The Prime Minister selects the other ministers. The Cabinet is formed by the PM and the senior ministers.

Elections: The 650 constituencies will elect MPs (Members of Parliaments) every 5 years. The person who wins most votes in each area will gain a parliamentary seat. The leader of the majority party (or coalition) will become prime-minister. Due to this type of election it is more difficult for smaller parties to get a high number of MPs and sometimes main parties (Conservative and Labour which usually together get 70% of the seats) can get a percentage of votes below 50% but gain majority of MPs in parliament.

House of Commons	
Conservatives	288
Labour	245
Independent	35
Scottish National Party	35
Liberal Democrat	19
Democratic Unionist Party	10
Sinn Féin	7
The Independent GfC	5
Plaid Cymru	4
Green Party	1
Speaker	1
Total	650

House of Commons: It is composed by 650 elected members (MPs) who consider and propose new laws. Commons may reject the current government by a confidence motion. When the government loses the confidence of the House of Commons the Prime Minister must either resign (giving his/her place to other) or request the Monarch to dissolve parliament leading this way to new elections.

House of Lords: Upper chamber of 803 members (number not fixed) reviews and revises bills from the Commons but may also propose its own. While it cannot prevent bills from passing into law (except in certain circumstances), it may delay or ask the Commons to reconsider their decisions. Members are appointed or gain the position through hereditary peers.

Parties:

Conservative Party (Tories): Founded in 1834, it is a center-right political party. It led 57 years of the 20th century which included as prime ministers, Winston Churchill and Margaret Thatcher. Despite generally supporting free market economics, limits to state regulations and privatizations, recently has become more protectionist. It supports British participation in NATO. Its current leader is **Boris Johnson**, which was preceded by Theresa May.

Labour Party: This center-left political party was founded in 1900, reaching the status of main opposition party in the early 1920s. Tony Blair and Gordon Brown governed the UK from 1997 to 2010 in this party. Today's leader is **Jeremy Corbin**, but with a view more to the left than to the center.

Scottish National Party (SNP): This party is nationalist and social democrat. It defends the independence of Scotland within the European Union. Has the highest number of seats in the Scottish Parliament (35 out of 59) and its leader **Nicola Sturgeon** serves as First Minister of Scotland since 2014.

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Liberal Democrats: It positions itself in the center. This party was in a coalition with the Conservative Party from 2010 to 2015. Currently has been focusing on being against Brexit.

Democratic Unionist Party: This recent party, founded in 1971, is unionist and is led by **Arlene Foster**. After the 2017 elections decided to support the Conservative minority government on selected causes.

Indicator	
Population (2018 July)	65,105,246
Pop Growth rate (2018)	0.51%
Urban Pop %	83.70%
Median age (Years)	40.5
Health Exp % GDP (2017)	9.60%
Education Exp %GDP (2019)	4.20%
School life expectancy (Years)	19
Unemployment (June 2019)	3.8%
Infant Mortality rate(/live births)	4.2/1000
Mother Med. age at 1st birth(2014)	28.5

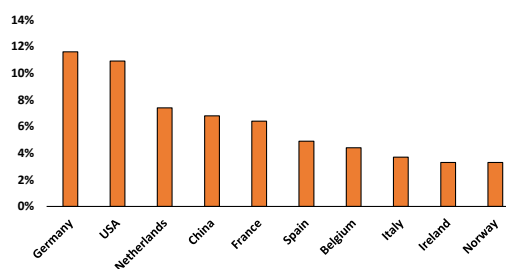
Population

Its 65 million habitants are mainly present in England (84%), while only 8% are in Scotland, 5% in Wales and 3% in Northern Ireland. Main language is English. According to 2011 estimates, 87% of the population belong to the white ethnicity, 3% has origins in Africa or Caribbean, 2.3% in India, 1.9% in Pakistan and the most common religion is Christianity (59.5%), while Muslim represents only 4.4% and Hindu 1.3%.

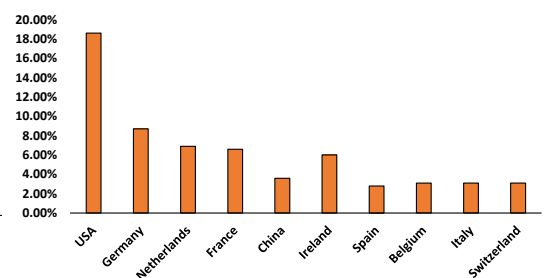
External trade

Trade (2018)	
Imports (GBP bn)	665
Exports (GBP bn)	634
EU (GBP bn)	642
Non-EU (GBP bn)	657
As a % of GDP	61.3
Trade deficit % GDP	1.50%

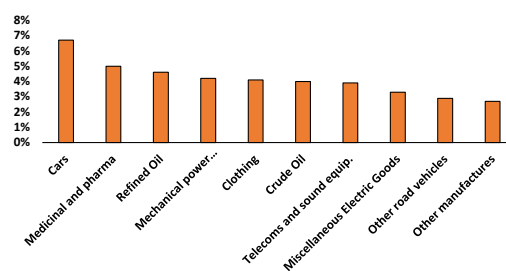
Main Import Partners



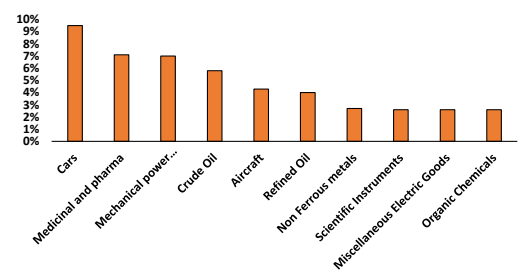
Main Export Partners



Main Import Products

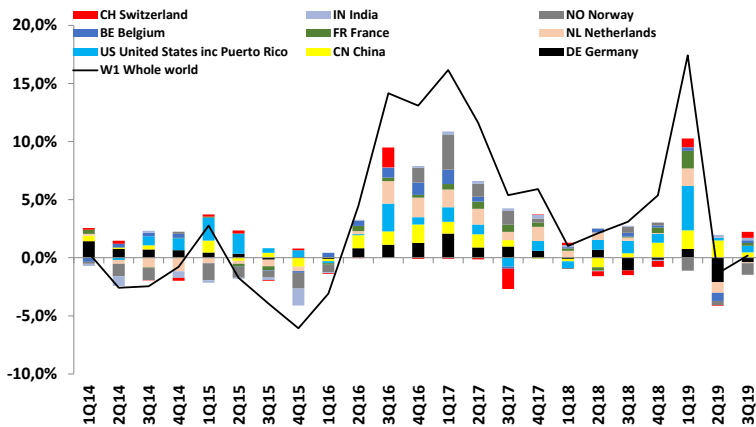
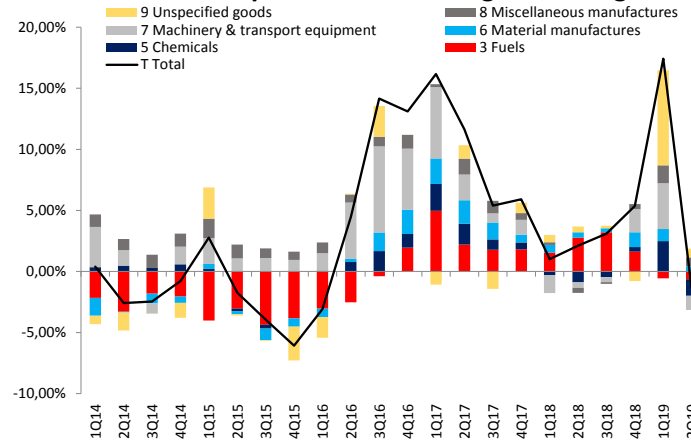
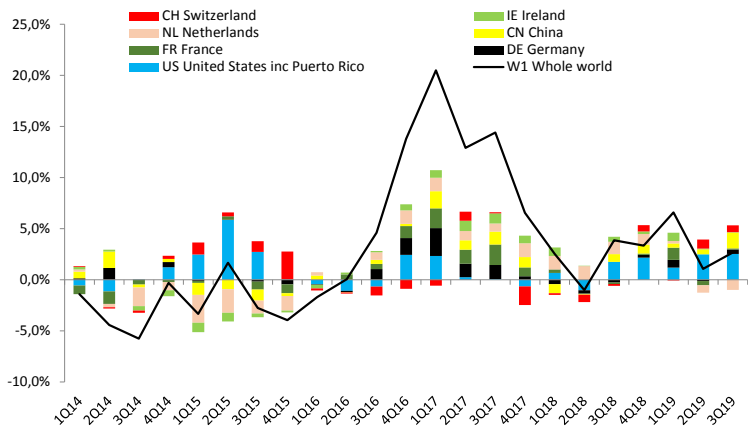
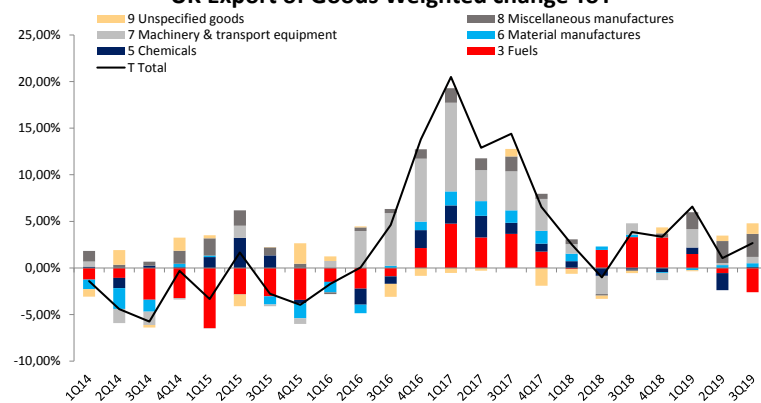


Main Export Products



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Weighted change in Imports and exports of goods:

UK Imports of Goods Weighted Change YoY

UK Imports of Goods Weighted change YoY

UK Export of Goods Weighted Change YoY

UK Export of Goods Weighted change YoY


Energy

Electricity (2016)	
Production (bn kWh)	318
Consumption (bn kWh)	309
Exports (bn kWh)	2
Imports (bn kWh)	19
Installed cap (mn kW)	97
From Fossil Fuels % capacity	50%
From Nuclear plants % capacity	9%
From Hydroelectric % capac.	2%
From Other Renewables %capac.	39%

Crude Oil (CO)/ Refined Petroleum(RP)	
Production (CO) (k bbl/day) (2018)	1,000
Exports (CO) (k bbl/day) (2017)	710
Imports (CO) (k bbl/day) (2017)	907
Reserves (CO) (mn bbl) (2018)	2,069
Production (RP) (k bbl/day) (2017)	1,290
Consumption (RP) (k bbl/day) (2017)	1,584
Exports (RP) (k bbl/day) (2017)	614
Imports (RP) (k bbl/day) (2017)	908

Natural Gas Billion cu m Value	
Production (2017)	42
Consumption (2017)	79
Exports (2017)	11
Imports (2017)	47
Proved Reserves (2017)	176

Research:

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Calendar

Calendar UK events and economic releases	
January	July
UK Government debt and deficit bulletin (17) BoE Monetary Policy Meeting (30)	
February	August
	BoE Monetary Policy Meeting (6)
March	September
BoE Monetary Policy Meeting (26)	BoE Monetary Policy Meeting (17)
April	October
May	November
BoE Monetary Policy Meeting (7)	BoE Monetary Policy Meeting (5)
June	December
BoE Monetary Policy Meeting (18)	BoE Monetary Policy Meeting (17)

Sources

- CIA overview page of UK: <https://www.cia.gov/library/publications/the-world-factbook/geos/uk.html>
- UK Trade in numbers: <https://www.gov.uk/government/statistics/uk-trade-in-numbers>
- Office for National Statistics UK: <https://www.ons.gov.uk>

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 - Accumulate, expected absolute return between +5% and +15%;
 - Hold/Neutral, expected absolute return between -5% and +5%;
 - Reduce, expected absolute return between -5% and -15%;
 - Sell, expected absolute return below -15%;The investment framework aforementioned is merely indicative and not globally strict.
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- The update of the investment recommendations models and respective price-targets will occur, usually, in a period of 6 to 12 months.
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